

**MANCHESTER CITY COUNCIL**

**REPORT FOR INFORMATION**

**COMMITTEE:** RESOURCES AND GOVERNANCE OVERVIEW  
AND SCRUTINY COMMITTEE

**DATE:** 16 OCTOBER 2008

**SUBJECT:** ANNUAL ACCOUNTS PROCESS

**REPORT OF:** CITY TREASURER

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**PURPOSE OF REPORT**

To inform Members of the action taken to ensure the Council achieves a better Use of Resources score on the 2007/08 annual accounts process and action which needs to be taken to further improve for process for the 2008/09 annual accounts.

**RECOMMENDATIONS**

The Committee is asked to note this report.

**Financial Consequences for the Revenue Budget**

None

**Financial Consequences for the Capital Budget**

None

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**Background Documents:**

Annual Accounts 2007/08  
Report to Audit Committee on 27 June 2008 and 25 September 2008

**Wards affected:**

All

**Implications for:**

<b>Antipoverty</b>	<b>Equal Opportunities</b>	<b>Environment</b>	<b>Employment</b>
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No

No

No

No

## **ANNUAL ACCOUNTS 2006/07**

1. The report to Audit Committee on 28 September 2007 detailed the amendments required to the 2006/07 accounts following their audit by the Audit Commission. The report contained over 50 amendments to the draft accounts approved by the Committee in June 2007 (a significant increase on the previous year). The SORP 2006 introduced a substantial number of changes to the 2006/07 accounts which coincided with the first accounts closedown using SAP. Although some of the amendments related to the introduction of the 2006 SORP many of them did not.
2. As a result of the scale and volume of the amendments the Council received a score of 1 (inadequate) for financial statements.
3. In its report to the Audit Committee the Audit Commission recommended that the Council review the adequacy of resources so that the closedown plan could be achieved and that time was made available for a quality control review of the accounts.

## **ACTION TAKEN TO IMPROVE ANNUAL ACCOUNTS PROCESS**

4. Following the completion of the audit of the 2006/07 accounts a review of the resources required in the Financial Accounting Team was undertaken. As a result of this review a graduate trainee accountant was placed in the team in addition to the graduate trainee that was already in place. In January 2008 both these trainees passed their final examinations to become qualified CIPFA accountants. In addition two temporary members of staff (one of whom was a qualified accountant) were recruited for a period of six months. This increased the number of qualified accountants within the team from one to four which enabled the complex accounting concepts introduced as part of the 2007 SORP to be examined in detail.
5. Following the appointment of Grant Thornton as the Council's external auditors members of the team together with the Head of Financial Management and Head of Finance (Corporate and Strategic) attended an accounts workshop hosted by the auditors in December 2007 at which the 2006/07 process was reviewed and the new requirements for 2007/08 considered.
6. At the workshop it became apparent that Grant Thornton auditors had different interpretations on some areas of the SORP than the Audit Commission had and that thinking on some of the new requirements for 2006/07 had been developed further.
7. In the light of the workshop and further detailed consideration of the 2006 SORP a number of proposals for changes to the 2006/07 comparatives in the 2007/08 accounts were developed. A draft of the 2007/08 accounts containing these comparatives was provided to Grant Thornton so that early discussions on these could take place.

8. Early meetings were held with Grant Thornton following their review of the 2006/07 audited accounts. It was encouraging to note that many of the points raised by them were items that had been identified in the review undertaken by ourselves. We were therefore able to agree on the treatment of these transactions for future years.
9. These meetings also presented the opportunity to discuss complex accounting issues to ensure that the treatment was agreed before the draft accounts were reported to Audit Committee in June. Amongst the issues discussed was the treatment of LOBO (lender option borrower option) loans, Large Scale Voluntary Transfers and Private Finance Initiatives.
10. The way in which working papers were presented to the Auditors was also reviewed. An electronic document library was created which contained all working papers requested by Grant Thornton cross referenced to their working paper requirements. Grant Thornton had access to this document library which meant that very few paper files were required.
11. All of the actions detailed above meant that the Council was much better prepared to complete the annual accounts and undergo the audit than it had been previously.

#### **OUTCOME OF THE AUDIT OF THE 2007/08 ACCOUNTS.**

12. The 2007/08 accounts were re-approved by the Audit Committee on 25 September 2008. It was acknowledged by Grant Thornton that the Council had demonstrated its commitment to improve the accuracy of the accounts and that the number of amendments had reduced from the previous year. They also commented favourably on the electronic working papers.
13. In total there were thirteen amendments to the accounting statements (excluding changes to improve the presentation of the accounts). Of these changes five were as a result of further accounting interpretations agreed after the finalisation of the draft accounts in June and two were as a result of further information being available since the finalisation of the draft accounts
14. The remaining six amendments were as a result of errors. The majority of these related to the introduction of debtors and creditors into the accounts including those in relation to housing subsidy entitlement and non housing rents.
15. The Use of Resources scores will not be available until December 2008. However an improved score for financial reporting is anticipated.

#### **ACCOUNTS PROCESS 2008/09**

16. Work has already started in preparation for the 2008/09 accounts process. A detailed review of the 2007/08 process is to be held which

will involve discussion with departmental finance staff and auditors from Grant Thornton.

17. The pro-forma 2008/09 accounts will be produced before the end of the calendar year following a review of the 2008 SORP for required changes to the accounts. This will also take account of presentational changes discussed with Grant Thornton during the audit. We intend to agree the format of the 2008/09 draft accounts with the auditors before the end of this financial year. Members of the team will also attend accounts workshops run by Grant Thornton.
18. Briefings will be held with departmental finance staff towards the end of the financial year to reinforce the guidance issued. Their responsibilities particularly in relation to validating creditors and debtors together with providing evidence, justifying these transactions, to the financial accounting team will be particularly focussed on. It is intended that senior finance staff will review larger items and those considered to be of significant risk. An independent review of the accounts will also be undertaken, either by internal audit or another resource.
19. During the accounts process the financial accounting team will be further reviewing debtors and creditors paying particular attention to those areas where errors occurred in previous years.
20. The second year with Grant Thornton as auditors should mean that the issues that arose, due to their different interpretation from the Audit Commission, which were resolved during the audit (and in some cases resulted in amendments to the accounts) should not reoccur.
21. The intention is to build on the improvement shown during 2007/08 so that the use of resources score for financial statements in 2008/09 is further improved.

### **RECOMMENDATION.**

22. The Committee is asked to note the improvements made in 2007/08 and the action to be taken to continue that improvement in 2008/09.